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SUBJECT: Japan Economic Scope for December 8, 2008

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11. (U) This cable contains the Japan Economic Scope for December 8, 2008

Business

12. (U) American and Kyushu Companies to Develop Rapid Vehicle Charging Stations

Ener1, a New York based energy storage company, announced a deal with Kyushu Electric Power (Kyuden) to develop rapid recharging stations for electric vehicles. According to Ener1, Kyuden is already developing advanced rapid charging stands for electric vehicles and plans to integrate the system with a battery pack from Ener1's lithium-ion battery subsidiary, EnerDel. The two companies hope to make the first integrated charging station available by March 2009. Once developed, the rapid recharge system will allow drivers to recharge up to 80 percent of a vehicle's battery capacity in less than 20 minutes. The ability to recharge lithium-ion batteries rapidly is seen as an important step toward the widespread adoption of electric vehicles.

13. (U) ACCJ Elects New President, Board Members

The ACCJ on December 4 elected Thomas W. Whitson, a KPMG Partner and 20 year resident of Japan, as President for 2009. ACCJ re-elected as Tokyo Vice Presidents Michael J. Alfant (President and CEO, Fusion Systems Japan Co., Ltd.) and William R. Bishop, Jr. (Director, Government & Public Affairs, Nippon Becton Dickinson Company, Ltd) to join elected incumbent Tokyo Vice Presidents Laurence W. Bates (General Counsel, General Electric Japan, Ltd.), Kumi Sato (President, Cosmo Public Relations Corporation), and Mark 1F. Schwab (Vice President, Pacific, United Airlines, Inc.). ACCJ also re-elected incumbent Treasurer Nasir Majid (Partner, International Assignment Solutions, PricewaterhouseCoopers).

In addition, as ACCJ Tokyo Governors, ACCJ elected Andrew Conrad (Senior Vice President, Aflac International, Inc.), Bruce J. Ellsworth (Director, Government Affairs - Japan, Johnson & Johnson Family of Companies), Patricia O'Keefe (Director, USC International Offices - Tokyo, University of Southern California), Douglas Peterson (Chairman, Representative Director, President and CEO, Nikko Citi Holdings Inc.), Jay Ponazecki (Partner, Morrison & Foerster LLP), Mitsuyo Teramura (Senior Manager, Government Affairs, Federal Express Corporation), and Jim Weisser (President, PBXL), to join incumbents Christopher K. Ellis (Representative Director and President, Chrysler Japan Co., Ltd.), James Foster (Director, Corporate Affairs, Microsoft Japan), Tad Johnson (General Manager, P&W Aftermarket Japan KK), John Kakinuki (General Counsel, GE Consumer Finance Co., Ltd.), and Nicole W. Piasecki (President, Boeing International Corporation).

Environment and Energy

14. (SBU) Japan's Trial Emissions Trading Scheme Yet To Attract Participants

No companies have yet joined Japan's new trial domestic emissions trading scheme, an official from the Ministry of Environment (MOE) Market Mechanism Office told a November 19 international emissions trading conference. The official hopes last-minute applications will flood in before the December 12 deadline. The GOJ has already been open to recruiting applications for a month.

At the same conference, International Carbon Action Partnership (ICAP) Project Manager Dr. Martin Bergfelder explained the GOJ's trial does not qualify for ICAP participation; ICAP includes only mandatory cap and trade systems with absolute caps. Japan's system is voluntary and allows intensity targets rather than mandatory absolute targets. He added that an intensity target precludes telling if an environmental objective is met. Asked off line about Japan's scheme, told emboff that even a small step could be worth taking.

Hosted by the Institute for Global Environmental Studies (IGES), an MOE-related think tank, the conference drew 130 attendees from industry, international organizations, research institutions and the press.

15. (U) Merrill Lynch to Withdraw from Japan Electric Power Exchange

TOKYO 00003362 002 OF 004

The Japan Electric Power Exchange, which administers Japan's nascent wholesale electric power trade, announced Merrill Lynch will withdraw from the exchange in January 2009, according to media sources. Merrill was the first foreign trader to enter the exchange in early 2007 in what was then reported as a major step toward liberalization of Japan's electricity sector. While the firm has not commented publicly on the reasons for its withdrawal, analysts have noted there has been little growth in Japan's wholesale electricity market. The market reportedly provides less than one percent of the country's total power consumption, compared to the approximately 44% share of the U.S. electricity market held by wholesale power marketers (per data from the Energy Information Administration).

Food and Agriculture

16. (U) Unapproved Biotech Event (E32) Found in U.S. Corn Shipment

Ministry of Health, Labor, and Welfare (MHLW) informed the Embassy November 18 that a shipment of U.S. corn had tested positive for Dow's Event 32 (E32). E32 is not approved in Japan, and MHLW currently tests U.S. corn shipments for it. The MHLW has not made any special announcement about the finding, but may do so once further test results are known.

Japan is the largest market for U.S. corn, valued at nearly \$3 billion. Since April, the use of biotech corn for food (starch) has increased dramatically. Cargill and Dow are negotiating disposal of this corn lot, about 600 MT. The finding may make it more difficult, however, to argue for an end to MAFF's E-32 testing.

Japan's Foreign Relations

17. (U) GOJ and UN Fund Assistance to Chernobyl-Affected Areas

The GOJ and UN agreed November 18 to extend assistance totaling \$2.6 million to the "Human Security for Individuals and Communities in Chernobyl-Affected Areas through Local Information Provision (International Chernobyl Research and Information Network)" project. The project is implemented by UNDP, IAEA, WHO and UNICEF, through

the Trust Fund for Human Security, and will benefit people in Ukraine, Belarus, and Russia. The project is expected to address information deficiencies and improve behavioral patterns and perceptions of people living in areas contaminated by the Chernobyl accident.

18. (U) GOJ, UN Fund Program For Children At Risk In Senegal.

The GOJ and the UN agreed November 18 to extend assistance totaling \$2.6 million through the Trust Fund for Human Security to a project entitled "Inter-agency Programme for Improving the Situation of Children at Risk in Senegal," to be implemented in Senegal by the ILO and UNICEF. The project aims to improve the lives of disadvantaged children in the Thies region by:

- Strengthening communities, local government, religious leaders and NGOs through awareness-raising campaigns and training on child labor and birth registration;
- Liberating children from child-labor by providing them with informal/formal education, life skills training, vocational training and health care services;
- Supporting families of targeted children through implementing income-generating activities;
- Promoting birth registration through supporting local NGOs and Community-based Organizations; and
- Establishing a community-based child labor monitoring system.

19. (U) Group Reviews Climate Change Program Loan to Indonesia

The GOJ extended a loan up to 30.8 billion yen (\$308 million) to Indonesia, January 2008, to support GOI efforts to address climate change issues. This Climate Change Program Loan is the first case based on the Cool Earth Partnership.

Notes were exchanged in August and the Steering Committee met for the first time November 14 in Jakarta to review progress under the loan. Participants also discussed enhancing monitoring arrangements

TOKYO 00003362 003 OF 004

and other future steps.

110. (U) Yen Loan To Peru

The GOJ will provide a Japanese ODA loan of up to 22.13 billion yen (\$221.3 million) to the Government of Peru to implement four projects (water supply/sewage systems and electric power projects). The two sides exchanged notes on November 22 in Peru.

111. (U) Japanese Instructors Support African Peacekeeping

Japan is dispatching instructors as part of Japan's ongoing assistance for Peacekeeping Operation (PKO) centers in Egypt and Ghana. They will train African soldiers and civilians engaged in peacekeeping operations or humanitarian activities.

-- Two Ground Self-Defense Force officers and the Director of the Hiroshima Peace-builder Centers were dispatched as instructors for a two-week training program from November 23 at the PKO center in Egypt (Cairo Regional Center for Training on Conflict Resolution & Peacekeeping in Africa). The officers will share Self-Defense Force experiences in humanitarian and reconstruction assistance in Iraq and international emergency relief operations, while the professor will focus on the importance of human resource development in the field of international peace cooperation.

-- A senior JICA peace-building advisor was dispatched as trainer for a two-week November training program in Ghana. The program is aimed at West African government officials on peace-building activities from a developmental viewpoint, focusing on controlling small arms and light weapons. Japan has provided assistance for these PKO centers to enhance peacekeeping capabilities of African countries. The GOJ will continue to provide not only financial

assistance but also Japanese experts and specialists.

Trade

¶12. (U) Japan Reviews Easing Application for Trade Remedies

Japan's trade remedies -- e.g., anti-dumping duties, countervailing duties, safeguards -- are under review by a Ministry of Finance study group. The group, consisting of academics interested in trade policy and the head of JETRO (Japan External Trade Organization), could submit recommendations to the Ministry as early as December.

The focus to date has been how to simplify procedures to apply for trade remedies, and a possible mechanism to trigger them. The Ministry has said any changes resulting from the group's recommendations will be consistent with WTO rules.

Japan has only initiated a handful of trade remedy cases since 1995, while it has been subject to over 100 suits from other countries during the same period, according to a media report. It has been suggested that cumbersome, time consuming procedures, relative to Japan's trading partners, have discouraged Japanese industry from initiating more cases.

Transportation

¶13. (SBU) GOJ Proposing 20% Ownership Cap in Privatized Narita Airport

The Ministry of Land, Transport And Infrastructure (MLIT) has proposed no single investor, foreign or domestic, be allowed to own more than 20 percent of Narita International Airport Corp. (NAA), after its expected 2010 IPO. Under the proposal, the Ministry would retain a permanent 33 percent stake in the company for itself. MLIT submitted its proposal to the Cabinet Office Study Group on Airport Infrastructure November 27. MLIT Deputy Director for Metropolitan Airports, whose office prepared the proposal, confirmed the Ministry's aim is to maintain de-facto control over Narita, due to the airport's "public nature", even after ostensible privatization. An NAA official told Embassy any decision on investment restrictions is up to the government and would be based on security concerns, but his personal opinion is all shares should be put on the open market.

In contrast, high-level NAA management has stated publicly some level of government ownership is appropriate. Whether MLIT's proposed share cap would apply post-facto to already-privatized Japan Airport Building Co., which operates passenger terminals at Haneda, Tokyo's domestic hub, is not clear. The study group's final report is due before the end of the year.

TOKYO 00003362 004 OF 004

SCHIEFFER